

NOV. 15

o **Market Rate**

- The statewide personal services adjustment represents salaries for the division at an estimated 95 percent of market relative to the 2008 executive branch market survey and, prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature, was 114 percent of market relative to the 2006 executive branch market survey

o **Vacancy**

- The division has identified financial examiners as an occupational group that poses difficulties of high turnover or difficulties in recruitment and retention. Factors identified include large amounts of travel and more competitive salaries in private sector financial institutions and federal regulators

o **Legislatively Applied Vacancy Savings**

- The division used normal turnover in order to achieve the 4.0 percent legislatively applied vacancy savings rate

**LFD
COMMENT**

In terms of FTE-hours, the division experienced an 18.8 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division underspent its personal services authority by 18.1 percent as appropriated by the 2007 Legislature.

o **Pay Changes**

- Pay increases given to division HB 2 funded staff were limited to professional career ladder adjustments funded in HB 2 and 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature

o **Retirements**

- The division has twelve employees that will be eligible for full retirement (30 years of state service or 60 years of age). The division anticipates that there will be five employees retiring in the 2011 biennium at a cost of \$51,000 in unfunded compensated absence liabilities

DP 106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

**LFD
COMMENT**

This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

DP 1401 - Banking Professional Career Ladder Program - An increase of \$312,525 state special revenue for the biennium is requested to fund the division's professional career ladder program.

The following information is provided so that the legislature can consider various performance measurement principles when examining this proposal. It is submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The Banking Professional Career Ladder Program is needed so the division can retain and recruit its bank examiners. During the next biennium, five senior examiners are eligible to retire. Montana banks and credit unions hold \$17.5 billion in assets. The safety and soundness of Montana's financial institutions is crucial during this economic period. Regulation of the mortgage industry for the benefit of Montana borrowers is also key to the strength of our economy. The supervision of banks, credit unions, and other financial institutions is highly specialized work which requires extensive and continuous education as well as long-term on-the-job training. On average, it takes a minimum of five years to adequately train a bank examiner before they may attain the designation of a senior examiner. If the career ladder program is not adopted, the division will lose its examiners to federal financial regulators such as the Federal

Deposit Insurance Corporation, Federal Reserve Bank, and the Office of the Comptroller of the Currency and financial institutions within the private sector. Without the experience and retention of staff, the ability of the division to supervise the safety and soundness of Montana's banks, credit unions, and other financial institutions will be jeopardized.

Goal: Three goals are identified for the professional career ladder program:

- o To retain bank examiners who will achieve the skills and knowledge necessary to become senior examiners. In turn, these senior examiners would be integral as part of the division's management succession plan
- o To use the career ladder program as an incentive to attract qualified applicants to fill vacancies within the division
- o To assure the division's continued accreditation for meeting professional standards in bank supervision by the Conference of State Bank Supervisors

Performance Criteria: The progress of the professional career ladder program would be measured by the retention of existing bank examiners and the recruitment of qualified individuals to fill vacancies.

Milestones: The division is continuously putting its efforts into the retention and recruitment of its staff. This request represents an ongoing effort by the division to be competitive with the federal regulators and the private financial institution sector. The division will continue the professional career ladder until it has the ability to competitively recruit and retain bank examiners.

FTE: No new FTE are requested, only funding for existing FTE.

Fees: The request is to continue funding the professional career ladder program. It would be supported by the division's state special revenue fund which is comprised of the licensing, examination, and assessment fees charged to its state chartered financial institutions and other licensees. The program would provide salary adjustments based upon an employee's performance and competency in fiscal years 2010 and 2011. The maximum potential salary adjustment for an employee during either fiscal year would be between \$1,500 and \$2,500.

Obstacles: The challenge to implementing this proposal is that although it provides additional funding, it does not match the higher salaries offered by federal financial regulators and financial institutions within the private sector. Therefore, even with having the career ladder program in place, the division bank examiners are offered positions with federal financial regulators and financial institutions within the private sector. However, the prospect of retaining staff by having the career ladder program in place is much better than if this funding was discontinued.

Risks: If the request is not adopted, the division expects difficulties retaining financial examiners. Without the experience and retention of bank examiners, the ability of the division to supervise the safety and soundness of Montana's banks, credit unions, and financial institutions will be jeopardized. The division needs experienced examiners in its mortgage broker and lender program to protect Montana borrowers and to address the affects of the ongoing national credit and liquidity crisis.

**LFD
ISSUE****Measuring Success of the Professional Career Ladder for Bank Examiners**

In FY 2002, the division implemented the broadband pay plan for its financial institution examination personnel and adopted a competency-based pay system (the career ladder) to address turnover issues for jobs in the private-sector or with the federal government with greater salary potential and fewer travel demands. High turnover was a factor in the division failing to become a nationally accredited regulatory agency. The division first received funding for the professional career ladder program in the 2003 Legislature and the program has been funded in each biennium since.

After three biennia of funding the program, the legislature may want to discuss with the division the progress it has made and the effects of the program. The division has stated it measures success of the program through progress of the

**LFD
ISSUE
(Cont.)**

professional career ladder program through experience in the retention of existing bank examiners and the recruitment of qualified individuals to fill vacancies.

As it reviews the funding request for continuation of this program, the legislature may want to discuss with the division the specific outcomes and progress the program has made in attaining the stated goals. In other words, how is the program working to retain and recruit qualified bank examiners to carry out the mission of the division?

DP 1402 - Banking Replacement of Desktop & Laptop Computers - An increase of \$42,300 state special revenue for the biennium is requested to replace desktop computers and laptops.

**LFD
ISSUE****Would Establish a Base for a Two-year Replacement Cycle**

As requested the funding for computer replacement would establish funding to replace computers for 65 percent of division staff or 25.00 FTE during the 2011 biennium. Of the biennium funding, \$36,300 is for FY 2010 which when combined with the base of \$6,810, and if the full funding were expended in FY 2010 would establish an ongoing funding level adequate to replace all staff computers every two years beginning in FY 2012. The state standard for replacing computers is four years. Also, the executive budget instructions estimate the cost for a laptop computer at \$2,200.

The legislature may wish to adjust the request to structure the funding for computer replacements to match the four-year standard. If the legislature wanted to structure the division's computer replacement funding this way it could do it in a number of ways:

- o Option 1 – Adjust the annual amounts of DP 1402 to \$15,190. This would reduce the request by \$11,920 for the biennium and, when the base is considered, establish annual funding levels at \$22,000 or enough funding to purchase 10 computers at a price of \$2,200
- o Option 2 – Leave the funding levels as they are in the request, but designate \$21,110 of the FY 2010 funding as one time only. This would establish future base funding at \$22,000, which is the funding to establish a four-year replacement cycle at a cost of \$2,200 per computer

New Proposals

New Proposals											
Program	FTE	Fiscal 2010				FTE	Fiscal 2011				
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds	
DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation											
	14	0.00	0	1,182	0	1,182	0.00	0	1,050	0	1,050
	Total	0.00	\$0	\$1,182	\$0	\$1,182 *	0.00	\$0	\$1,050	\$0	\$1,050 *

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	31.50	31.50	31.50	31.50	31.50	31.50	0.00	0.00%
Personal Services	1,705,624	1,741,238	1,771,010	1,776,113	3,446,862	3,547,123	100,261	2.91%
Operating Expenses	5,444,138	5,878,210	5,577,282	5,475,212	11,322,348	11,052,494	(269,854)	(2.38%)
Equipment & Intangible Assets	42,077	42,256	42,077	42,077	84,333	84,154	(179)	(0.21%)
Total Costs	\$7,191,839	\$7,661,704	\$7,390,369	\$7,293,402	\$14,853,543	\$14,683,771	(\$169,772)	(1.14%)
Other	7,191,839	7,661,704	7,390,369	7,293,402	14,853,543	14,683,771	(169,772)	(1.14%)
Total Funds	\$7,191,839	\$7,661,704	\$7,390,369	\$7,293,402	\$14,853,543	\$14,683,771	(\$169,772)	(1.14%)

Program Description

The Montana State Lottery designs and markets lottery games that allow players to purchase chances to win prizes. The lottery presently offers a variety of instant/scratch and lotto-style games, some in cooperation with other lotteries through the Multi-State Lottery Association. A five-member lottery commission, appointed by the Governor, sets policy and oversees program activities and procedures. The net revenue, after prizes, sales commissions and operating expenses, is deposited in the state general fund on a quarterly basis.

Program Highlights

Department of Administration Montana State Lottery Major Budget Highlights	
♦	2011 biennium funding is nearly the same as 2009 biennium funding
♦	Statewide present law adjustments account for most funding adjustments

Program Narrative*Goals and Objectives***2009 Biennium Major Goals Monitored**

No goals specific to this division were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following key goal for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program was provided:

- o To continue to maximize the transfer of net revenue to the general fund
 - \$11.0 million in FY 2010
 - \$12.0 million in FY 2011